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ABSTRACT

This report lists 11 budgetary principles for higher education institutions, and presents the results of a survey which examined whether the practices of four-year public higher education institutions in California, Florida, Massachusetts, New York, Texas, and Wisconsin followed these precepts during the fiscal problems of the early 1990s. The 11 principles address the following areas: (1) collaborative planning process; (2) long- and short-term budget plans; (3) selective versus across-the-board cuts; (4) expenditure reductions versus revenue increases; (5) criteria for budget cuts; (6) long- not short-term personnel strategies; (7) raising productivity and performance in all areas; (8) reducing degree programs; (9) restructuring offices and activities; (10) refocusing campus missions; and (11) quality and access in undergraduate education. The survey found that institutions often failed to follow the budget principles. Respondents, when asked to cite three actions best characterizing their budget strategies, reported restricting expenditures (67 percent), restructuring organization and operations (66 percent), and raising revenues (49 percent). The report questions the heavy use of such strategies as tuition increases, encouragement of early retirement, and vacancy and salary freezes. (DB)

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Campus Budgeting For Tough Times: Lessons From The First Half Of The 1990s

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Abstract

This *Rockefeller Report* presents 11 budgetary principles and examines whether the practices of four-year public higher education institutions in California, Florida, Massachusetts, New York, Texas, and Wisconsin followed these precepts during the fiscal problems of the early 1990s. The lessons learned from this period could help campuses respond better to future economic downturns and declines in accustomed state funding.

INTRODUCTION

Better budgets in recent years have made state and campus policy makers forget the tough times of the early 1990s. They should remember this experience and recall two realities. First, higher education funding usually rises and falls with the economy. Second, booming economies, like bull markets, never last forever. Good times are the best time for college campuses and state capitals to plan for the future. State and campus leaders should learn the lessons of the last financial recession for public higher education.

The historic decline in state funding during the first half of the 1990s seemed to demand drastic measures and fundamental changes on public campuses. Commentators claimed that declining trends in state support would transform the priorities and programs — the missions and methods — of state colleges and universities.

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The following widely accepted principles for dealing with budget planning are deceptively simple, but very hard to implement; in fact, some do not fit together well.

1. Implement an inclusive and collaborative planning process;
2. Develop long-term as well as short-term budget plans;
3. Cut selectively, not across-the-board;
4. Make expenditure reductions exceed revenue increases to avoid excessive tuition and fee increases;
5. Use quality and priority, not equity and ease, as criteria for cuts;
6. Base personnel decisions on long-, not short-, term strategies;
7. Raise productivity and performance in all areas, including instruction;
8. Reduce the number of degree programs to improve quality and efficiency;
9. Restructure offices and activities to reduce costs and improve performance;
10. Refocus campus missions on institutional strengths and student demands;
11. Protect the quality of, and access to, undergraduate education.

Prescribing these principles, as stated, is much easier than pursuing them. Campus leaders who tried to implement all of them all at once would not remain leaders for long. Cutting selectively, dropping programs, refocusing missions, raising productivity and performance, and restructuring offices and operations inevitably create opposition on campuses and in state capitals. Participants in most big organizations — especially in academe — prefer certainty to change.

Budgeting, like politics, is the art of the possible. Nevertheless, principles help people think about making hard choices. To test how well campuses applied budget principles during the first half of the 1990s, we surveyed the finance officers of public four-year colleges and universities in California, Florida, Massachusetts, New York, Texas, and Wisconsin. Questionnaires went to officers in 162 institutions and 98 responded, for a return rate of 68 percent. State funding during the period ranged from drastic reductions in California, Massachusetts, and New York; to budget constraints in Florida and Wisconsin; and to curtailed increases in Texas. We started with the natural, but as it turned out mistaken, prediction that the budget problems would have a very big effect on institutional responses. Nearly two-thirds of the financial officers called their budget problem very large or large, but campus actions often ran counter to key good-budgeting principles as discussed in what follows.

Campus Planning

Most campuses did not implement an inclusive and collaborative planning process. Senior administrators dominated planning; and the planning groups under-represented faculty and especially students. Nearly all of the planning groups had participants from central administrations, and 70 percent included academic deans. Surprisingly, little more than half contained faculty members; and about a third included students. The responses left no doubt that central administrations, cited by 88 percent, dominated the planning process. Only 27 percent listed academic deans and just 18 percent considered faculty as prominent in budget planning. California institutions claimed that faculty members had much more influence than those from other states, but even there only 40 percent cited this group as opposed to 93 percent central administrations.

LONG- AND SHORT-TERM BUDGET PLANS

Over 40 percent of the campuses said they had short-term or no budget plans. The campus responses did not match their budget problems. California had over 40 percent with short-term or no plans; and over 70 percent of the responses from Massachusetts noted only short-term plans. Slightly more than a third of the replies from New York institutions listed combined long and short-term plans, but only four percent cited long term and 27 percent short term strategies. As expected, Florida, Texas, and Wisconsin, with lesser budget difficulties, relied more on short-term than on long-term plans.

SELECTIVE VERSUS ACROSS-THE- BOARD CUTS

Nearly 40 percent of the institutional responses admitted cutting budgets primarily across-the-board. Over 70 percent of the responding campuses from Massachusetts and 60 percent from New York did cut selectively, but two-thirds of those from California reduced across-the-board. Institutions in states with lesser problems reported higher percentages of selective cuts than anticipated. Florida reached 67 percent, Wisconsin 57 percent, and Texas – with only diminished increases – 54 percent.

EXPENDITURE REDUCTIONS VERSUS REVENUE INCREASES

Expenditure reductions should solve more of the budget problems than revenue increases to avoid excessive tuition and fee increases. The responses indicated that expenditure cuts covered 57 percent of the difference between required resources and state allocations, yet huge tuition and fee increases limited access in California, Massachusetts, and New York. Despite those increases, respondents from California and New York claimed that cost cuts handled more than two-thirds of their problem. But those from Massachusetts conceded that tuition and fees increases filled more than half of their budget shortfalls.

THE CRITERIA FOR BUDGET CUTS

Respondents reported the severest reductions in Administration and Maintenance. These two functions represented the easiest cuts for administrators in areas acceptable to deans and the faculty. Research received the lightest cuts. Functional cuts ranked as follows: a tie between Administration and Maintenance for first place, followed in order by Academic Support, Student Services, Public Service, Instruction, and Organized Research.

LONG, NOT SHORT, TERM PERSONNEL STRATEGIES

Although over two-thirds of the responding campuses picked the easiest path of vacancy and hiring freezes, more than a third took the challenging course of layoffs. Salary freezes (26%) ran a distant third. The responses tended to follow the size of the budget problems. Three-quarters of the replies from California and half from New York cited layoffs, although most campuses in Massachusetts avoided this action. Campuses in Florida and Texas, with the least problems, stuck largely to vacancy, hiring, and salary freezes.

Over two-thirds of the respondents from California said their campus retrenched non-tenured faculty and over a third dismissed tenured professors. Most of the faculty cuts of more than five percent came from California institutions. Just under half of the replies from New York said their insti-

tutions retrenched non-tenured and a quarter tenured faculty. In contrast, only 17 percent of the responses from Massachusetts reported retrenching non-tenured and none of them claimed to dismiss tenured faculty. More institutions in Florida, Texas, and Wisconsin — with much better budgets — retrenched both non-tenured and tenured faculty than those from Massachusetts. Aside from California, most institutions retrenched relatively few non-tenured and even fewer tenured faculty.

Raise Productivity and Performance in All Areas

Campuses raised productivity and performance more in administrative than in academic areas. Despite this emphasis, actions in instructional areas included both incremental and fundamental changes. Raising class size (58%) became the first choice, but using technology (53%) ran a close second. Increasing part-time faculty (46%) came next, followed by hiking teaching loads (41%). California and New York moved much more aggressively than Massachusetts in raising productivity and performance in academic areas. Only 40 percent of the responding campuses from all of the six states eliminated courses and sections; and most of them cut relatively few offerings.

Respondents said that slightly more than a third of their institutions redesigned the undergraduate curricula. States with the largest fiscal problems — California (35%), Massachusetts (29%) and New York (31) — reported much lower percentages than Florida (67%) and Wisconsin (71). Clearly, the size of budget problems did not determine curricular changes .

Reduce Degree Programs

Only a third of the respondents said their institutions eliminated degree programs. Responses by states often did not coincide with their budget conditions. Of the three states with the most difficulty, only a majority of New York campuses (62%) eliminated programs. California (35%) and Massachusetts (43%) reported much lower percentages. The largest percentage of campuses cutting programs came from Wisconsin (71%), a state with less severe budget difficulties. The minimal program cuts in Florida and Texas did match their fiscal situations.

Restructure Offices and Activities

Campuses most often restructured their central administrations (47%). Academic departments (34%) came next, mostly from mergers rather than eliminations. Thirty-one percent of the respondents said their institutions combined or eliminated units in both Maintenance and Operations and in Student Affairs. Twenty-two percent claimed they merged colleges, schools, or faculties. Academic Support (20%) was the least affected area.

Refocus Campus Missions

Just 16 percent of the participating campuses altered their missions to focus on institutional strengths and student demands. Massachusetts -- despite a free fall in state funding in the late 1980s and early 1990s — cited no changes; and only 12 percent of the replies from both California and New York reported mission revisions. The highest percentages of campuses claiming mission changes came from Texas and Wisconsin, and not from California, Massachusetts, and New York, which received the largest budget cuts.

QUALITY AND ACCESS IN UNDERGRADUATE EDUCATION

Nearly half of the finance officers claimed their campuses maintained the quality of undergraduate education, but 30 percent conceded that quality declined. Forty-one percent admitted access to undergraduate education decreased, while only 40 percent asserted that access was maintained. Almost half of the replies from California said quality declined, and about three-quarters admitted that access diminished. The returns from New York revealed that 39 percent indicated a loss of quality and half conceded a fall in access. Those from Massachusetts claimed both quality and access declined in 29 percent of their campuses. A third of the responses from Florida cited a decline in the quality of undergraduate education, while those from Texas and Wisconsin gave higher percentages to increased quality. More than half of the replies from Florida's campuses, which faced huge increases in student demand, conceded that access declined. Three-fourths of Texas respondents claimed their institutions maintained or increased undergraduate access.

CONCLUSION

The Survey asked campus finance officers to cite the three actions that best characterized their budget strategies during the period. Respondents listed restricting expenditures (67%), restructuring organization and operations (66%), and raising revenues (49%) as their most characteristic actions. The restructuring actions were largely limited to administrative areas; and few respondents checked the fundamental reforms of revising campus missions, teaching strategies, and course curricula. Parallel surveys of the financial officers of state coordinating agencies and of university systems confirm the conclusion that restricting expenditures and raising revenues represented the preferred strategies of colleges and universities in nearly all of the six states.

The institutional practices often failed to follow the budget principles, even in states with serious shortfalls in funding. Some failure seems inevitable, for it is always easier to prescribe than to practice principles. Despite this reality, the gap between practices and principles seems wider than the public is likely – or states are able — to accept in the next recession. The tuition increases and temporary measures, which solved much of the problem in the first half of the 1990s, are unlikely to remain acceptable or available in the next budget crisis. California, Massachusetts, and New York have frozen or reduced tuition in response to public complaints about affordability, following the huge increases in the first half 1990s. The overuse of early retirements and vacancy and salary freezes make them unlikely sources of large savings in a recurring recession.

The budgeting practices of the period often reflected the priorities of provider driven enterprises directed more by the concerns of administrators and faculty than the needs of students and states. Yet, service to states and their students is supposedly the characteristic that distinguishes public from private higher education. On the other hand, the funding factors used by states did little to encourage fundamental changes on campuses. Despite dramatic declines in the accustomed levels of state support, the factors that determined state allocations changed only slightly during the period. The Survey shows that base budgets retained their dominance in state allocations, while performance and productivity remained insignificant. It is hard to image a budgeting device better suited to the status quo on campus than the dominance of base budgets in determining state allocations.

The purpose of this paper is not to assess blame, for perfection is never possible when pursuing budget principles. Pressures to avoid controversial decisions are most persistent in difficult times. Every campus group feels threatened and compelled to protect its domain against cuts and unwanted changes. The comments from governors and legislators support this resistance to change on campus. To avoid complaints from constituents, state leaders feel compelled to deny that their budgets force

controversial cuts in programs and personnel. What campuses call bad budgets, they note, often represent only reduced increases rather than real cuts. In cases of real cuts, they insist that better management and fewer bureaucrats on campus could easily trim what had become bloated budgets.

Whatever the challenges and circumstances, budget practices on many campuses during the first half of the 1990s seemed soft and seldom stiffened by the budget principles. The reality that some colleges and universities did follow the principles proves that they were not impossible ideals, good in theory but unworkable in practice. The problem lay not in the lack of workable principles but in will of campus leaders to implement them, and in the willingness of state leaders to support tough but necessary decisions.

This study represents more than a historical exercise of what happened in what now seems a distant — perhaps forgotten — past. The lessons learned from budget practices in the first half of the 1990s should help public colleges and universities respond better to their next fiscal crisis, which will come inevitably with the next national recession. But memory in academe seems short. In 1995, Gordon Davies — then the chief higher education officer in Virginia — proclaimed: "The prosperity of the 1970s and 1980s is over." It has taken just three years of better budgets to make us forget the lessons we should have learned in the first half of the 1990s. We must learn from those lessons before the return of the next recession.

For a detailed analysis of the Survey results with tables of responses by states, see Joseph C. Burke, *Managing Campus Budgets in Trying Times: Did Practices Follow Principles?* Albany, NY: Rockefeller Institute, 1998. Available from The Nelson A. Rockefeller Institute of Government, Publications Department, 411 State Street, Albany, New York 12203-1003. Phone: (518) 443-5258 / Fax: (518) 443-5832 / e-mail: cooperm@rockinst.org / Home Page: http://rockinst.org/higheduc.htm

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